

It's budget-crunch time

By Todd Duvall

The legislative jockeying over the 2006-2008 state budget is well underway.

Barely a day out of his latest hospitalization, Gov. Ernie Fletcher last week took strong issue with the House version of the budget Fletcher proposed in January.

Fletcher said the roughly \$18 billion House budget borrows too much money – about twice the \$900 million in new debt Fletcher proposed – and takes too much money out of the state's rainy day fund for emergencies.

And Fletcher complained the House appropriates too little to pay for state employee health insurance over the next two fiscal years.

The House budget also expects Fletcher to save another \$50 million by cutting out waste in state government operations, a hefty amount for even Fletcher, who ran on cleaning up waste and corruption in Frankfort.

House Budget Committee Chairman Rep. Harry Moberly, D-Richmond, insisted the additional borrowing is not excessive and won't harm the state's credit rating. Moberly also said the rainy day fund doesn't need its nearly \$120 million balance, and the \$80 million the House took from it is better spent elsewhere.

So far the Senate, which is now preparing its own version of a budget, is being noticeably quiet on spending issues.

A lot of this posturing, however, is aiming at the end-of-session negotiations that will go on between Fletcher, the House and Senate over what everyone can settle for in the two-year spending plan.

Fletcher's correct about the rainy day fund. It's far more than a ready source of cash if tornadoes sweep across the state. It's a cushion to soften the effect of an economic downturn that reduces expected tax revenues. The \$38 million left in the fund by the House would disappear very fast if the state's economy for some reason takes a downward turn.

And on the issue of health insurance costs for state employees, no one ever went wrong by overestimating what those costs will be 12 or 24 months in advance. Whether the House is prudent to shift \$140 million out of the insurance fund will become

evident soon enough. And there won't be enough in the rainy day fund if the House bet turns out to be wrong.

The House budget also puts political pressure on the Senate in an important election year.

Much of the money shifted by the House is earmarked for larger pay raises for teachers, more higher education spending, and for health and human services programs. Much of the extra borrowing in the House budget goes for new university buildings that did not make it into Fletcher's proposal.

All of those – especially teachers and higher education – represent tens of thousands of voters who will be electing a new General Assembly in November.

The biggest hurdle in reaching a budget compromise, however, centers largely on what Jefferson County gets out of the deal.

The House budget appropriates \$75 million for a new downtown Louisville arena, but specifies that it be built on a site opposed by Fletcher, the Senate Republican leadership and many Louisville officials. The House also reduced substantially the appropriation for two long-planned new Ohio River bridges in Louisville, an action federal officials say jeopardizes further federal financing of the bridges project.

But full state funding of the bridges as requested by Fletcher means numerous road projects throughout the state must be delayed for two or more years.

Thus the budget negotiations become more than a Democratic House versus Republican governor and Senate issue. It pits the state's largest urban area – whose lawmakers are divided over the arena site in particular – against legislators from rural areas who depend on state road projects in their districts for re-election.

Over the final weeks of the 2006 legislative session, there may be an unprecedented level of pressure on everyone involved in working out a new budget that will complicate to a high degree an already difficult situation.

This year, however, the Kentucky Supreme Court has made clear that failure to pass a budget is an option that even the most partisan members of the House and Senate dare not contemplate.